



Terry L. Schwennesen
General Counsel

December 9, 2003

BY HAND DELIVERY & ELECTRONIC MAIL

Ms. Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Re: Docket 3551 - Petitions to Place the Navy on Narragansett Electric Rate G-62 - Proposed Settlement for Commission Review and Approval

Dear Ms. Massaro:

Enclosed on behalf of The Narragansett Electric Company, the Department of the Navy, the Economic Development Corporation of Rhode Island, the Attorney General of Rhode Island and the Rhode Island Division of Public Utilities and Carriers (collectively, the "Parties") are ten copies of a settlement in this proceeding ("Navy Settlement") that would implement rate reductions to the Naval Station at Newport on the earlier of January 1, 2004 or such other date established by the Commission. The Parties hereby submit this Navy Settlement for the Commission's approval.

Thank you for your attention to our filing. Please contact me if you have any questions concerning this transmittal.

Very truly yours,

Terry L. Schwennesen

Enclosures

C: Docket 3551 Service List

State of Rhode Island and Providence Plantations

Public Utilities Commission

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Narragansett Electric Company –)	
Petition to Place the Navy on)	
Narragansett Electric Rate G-62)	R.I.P.U.C. No. 3551
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Amended Settlement Agreement

The Narragansett Electric Company (“Narragansett” or “Company”) enters into this Amended Settlement Agreement (“Navy Settlement”) with the Economic Development Corporation of Rhode Island (“EDC”), the Department of the Attorney General, the Department of the Navy (“Navy”), and the Division of Public Utilities and Carriers (collectively the “Parties”) to resolve all issues arising out of petitions filed by the Company and by the Navy in this Docket 3551.

Background

1. The Navy currently is served under Narragansett’s retail delivery service rate schedule R.I.P.U.C. No. 1142, 69 kV Rate (N-01) (“Rate N-01”). Rate N-01 is available to customers taking service at a nominal voltage of 69,000 volts, and is a mandatory rate for the Navy. Under the Third Amended Stipulation and Agreement, dated March 14, 2000, to which the Navy was not a party, approved by the Commission in Docket 2930 (“Docket 2930 Settlement”), the Navy was to remain on Rate N-01 throughout the Rate

Freeze Period established in that docket (through December 31, 2004). The Navy is the only Narragansett customer taking service under Rate N-01.

2. Narragansett's rate schedule R.I.P.U.C. No. 1140, 3000 kW Demand Rate (G-62) ("Rate G-62") is available to customers whose maximum 12-month demand is 3,000 kilowatts (kW) or greater. The Navy's maximum 12-month demand for the 12-months ending July, 2003, was approximately 20.9 megawatts (MW). But for the mandatory nature of Rate N-01, the Navy would be eligible to receive service under Rate G-62. Based on its electric usage, under Rate N-01 the Navy pays more for service than it would pay if it were served on Rate G-62.
3. As part of the National Defense Authorization Act for Fiscal Year 2002, Public Law 107-107 (Dec. 28, 2001), the Congress directed a new round of Base Realignment and Closure ("BRAC 2005") review to address excess military base capacity. The BRAC 2005 process was created by the United States Congress to recommend and implement the realignment and closure of Department of Defense ("DOD") facilities on a periodic basis. Every DOD facility is subject to BRAC 2005 review. The current round of BRAC 2005 is scheduled to commence later this year, with the next round of BRAC 2005 recommendations scheduled to be acted upon in 2005.
4. Economically, Rhode Island has a higher dependence on the presence of the defense industry when compared to other states, due primarily to the Navy Station at Newport. In view of the significant impact that a BRAC 2005 decision could have on the state, the EDC has formed a BRAC 2005 Committee to help the state prepare for the upcoming BRAC 2005 review.

Agreement of the Parties

5. Given the vital role that the Naval Station at Newport plays in the economic well-being of the State of Rhode Island and of all of its citizens, and given the adverse impact that would result for Rhode Island if existing activities at the Naval Station were significantly curtailed or terminated, the Parties agree it is in the public interest to take actions that would reduce the costs to the Naval Station at Newport via non-discriminatory and equitable means and establish comparability in the rates paid by the Navy with the rates paid by other similarly situated customers.
6. Pursuant to Sections 6(D) and 23 of the Docket 2930 Settlement, the Company is required to file either a revenue neutral rate filing or has the right to file for a general rate increase for rates to become effective on January 1, 2005. Effective upon the date of Commission approved rates in that proceeding or the effective date of a new rate plan that supersedes the Docket 2930 Settlement, whichever occurs earlier, the Navy will be permanently transferred to Narragansett's Rate G-62, or the most competitive rate that the Navy qualifies for at the time.
7. The Parties acknowledge that upon the transfer of the Navy to a superseding rate, there will be no customers served on Rate N-01. In order to consolidate and simplify Narragansett's rate schedules, Rate N-01 shall be closed and cancelled.
8. Commencing as of January 1, 2004, or such other effective date ordered by the Commission upon approval of this Navy Settlement, and until such time as new rates become effective pursuant to Section 6, above, Narragansett shall provide the Navy with a credit (the "Rate N-01 Credit") on its monthly bill equal to \$.01209 per kWh. The Rate N-01 Credit was intended to approximate the difference between what the Navy is

charged for service under Rate N-01 and what it would be charged for comparable service under Rate G-62. Based on the Navy's consumption in calendar year 2002, this would result in a total bill reduction of approximately \$1.380 million per year. Given further reductions to payment of Rhode Island's four percent gross earnings tax that would result from the Rate N-01 Credit, the Navy's total annual bill would be reduced by about \$1.437 million per year. A schedule calculating the impact of the Rate N-01 Credit is provided in Exhibit A, attached. The Rate N-01 Credit shall continue until such time as the Navy is transferred to Rate G-62 or any other rate pursuant to Section 7, above, and may be prorated in the event the Navy receives a prorated bill.

9. The Parties acknowledge that the provision of the Rate N-01 Credit described in the preceding paragraph would reduce the per unit retail distribution charges to the Navy and reduce Narragansett's revenue correspondingly. In addition to reducing Narragansett's earnings, the reduction in revenues resulting from the monthly credit to the Navy would result in a reduction in so-called "shared earnings" accrued on behalf of all customers under the earnings sharing provisions in Section 11 (A) of the Docket No. 2930 Settlement, so long as Narragansett's earnings remain above the authorized rate of return.
10. Pursuant to Section 11 of the Docket 2930 Settlement, Narragansett is accruing shared earnings above certain earnings thresholds through the rate freeze period ending December 31, 2004, to be credited to customers in a manner to be approved by the Commission. According to the terms of the Docket 2930 Settlement, the amount accrued through the end of the rate freeze period will be reported to the Commission by no later than May 1, 2005. The Navy agrees, as part of this Navy Settlement, that it will forego receipt of its allocable share of any shared savings credit or up to 20% of the Rate N-01

Credits actually received by the Navy, whichever is less. The amount foregone by the Navy will be credited back to Narragansett's revenues and be subject to sharing among the Company and other customers in accordance with the relevant sharing percentage dictated by the Company's earnings level. Notwithstanding the foregoing, however, if the Commission determines that some or all of the shared earnings credited pursuant to Section 11 (C) of the Docket 2930 Settlement will be utilized for economic development or other customer incentives, nothing in this Navy Settlement shall preclude the Navy from participating in such programs as would any other similarly situated customer.

11. In the event the Company's return on equity, including the effect of the rate N-01 Credit, falls below 12 percent during the Rate Freeze Period established in the Docket 2930 Settlement, the Parties agree that the provision of the Rate N-01 Credit by Narragansett shall constitute an "Exogenous Event" as that term is defined in the Docket 2930 Settlement and the Company shall be entitled to file for recovery in the manner set forth in Section 6(C) of that settlement.

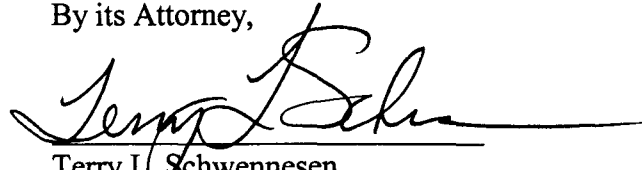
Other Provisions

12. This Navy Settlement in no way nullifies, modifies or amends the Settlement approved by the Commission in Docket No. 2930.
13. Unless expressly stated herein, the making of this Navy Settlement establishes no principles and shall not be deemed to foreclose any Party from making any contention in any other proceeding or investigation with respect to matters not addressed by this Navy Settlement.

14. This Navy Settlement is the product of settlement negotiations. The content of those negotiations is privileged and all offers of settlement shall be without prejudice to the position of any Party.
15. This Navy Settlement is submitted on the condition that it be approved in full by the Commission, and on the further condition that if the Commission does not approve the Navy Settlement in its entirety, the Navy Settlement shall be deemed withdrawn and shall not constitute a part of the record in any proceeding or used for any purpose.

Respectfully submitted,

The Narragansett Electric Company
By its Attorney,



Terry L. Schwennesen
General Counsel

The Economic Development Corporation
of Rhode Island
By its Attorney,

W. Mark Russo

The United States Department of the Navy
By its Attorney,

Audrey Van Dyke
Counsel for the Secretary of the Navy

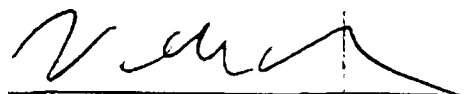
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of Rhode Island
By its Attorney,



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By its Attorney,

Audrey Van Dyke
Counsel for the Secretary of the Navy

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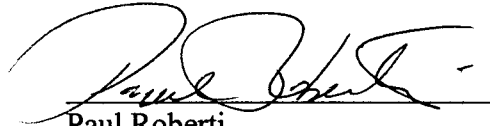
W. Mark Russo

The United States Department of the Navy
By its Attorney,



Audrey Van Dyke
Counsel for the Secretary of the Navy

The Department of Attorney General

A handwritten signature in black ink, appearing to read "Paul Roberti", written over a horizontal line.

Paul Roberti
Assistant Attorney General


The Division of Public Utilities and Carriers
By its Attorney,

William K. Lueker
Special Assistant Attorney General

The Department of Attorney General

Paul Roberti
Assistant Attorney General

The Division of Public Utilities and Carriers
By its Attorney,

 12/5/03
William K. Lueker
Special Assistant Attorney General